



**Jacob Vijverberg**  
Co-manager



**Vincent McEntegart**  
Co-manager



**Debbie King**  
Support Manager

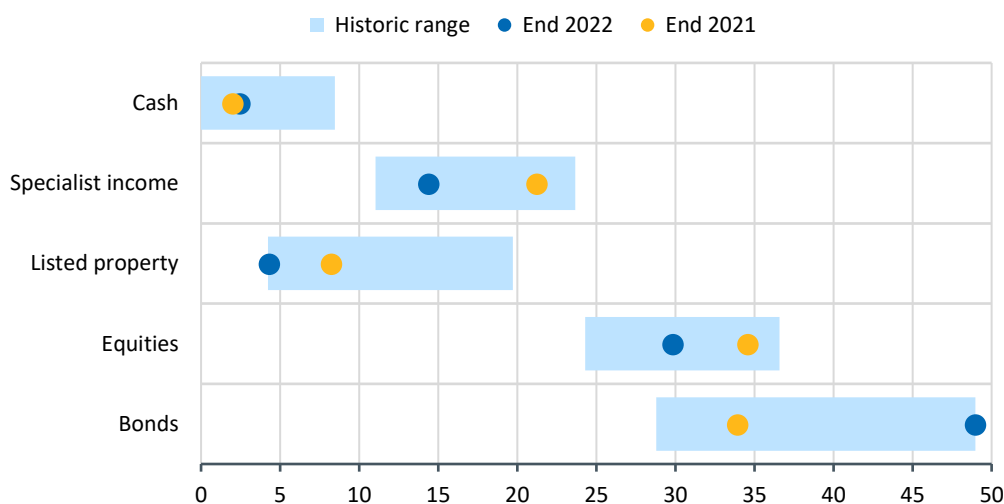


**Nick Edwardson**  
Senior Multi-Asset Investment Specialist

This note provides an overview of the main developments within our diversified income strategy in 2022 and how we are positioned for 2023 and beyond.

Against a volatile backdrop 2022 saw the largest asset allocation changes since the strategy's inception in 2014. Chart 1 shows the long-term high-level asset allocation ranges and highlights the allocations at the end of 2021 and 2022 respectively, illustrating the degree of change over the past 12 months.

**Chart 1: Asset allocation ranges since inception**



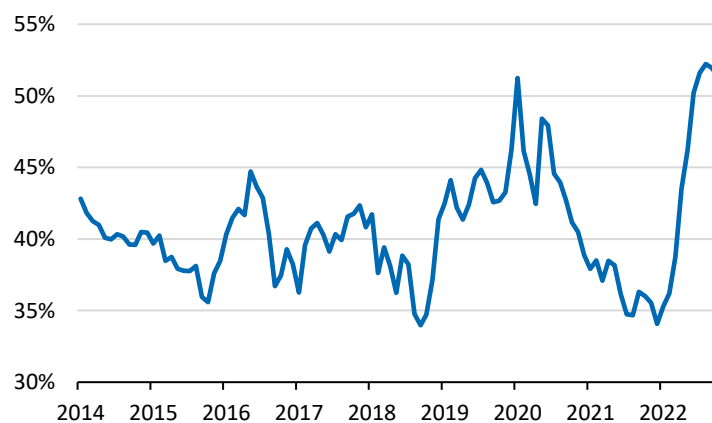
Source: Aegon AM. Representative diversified income portfolio. From 1 March 2014 to 31 December 2022.

The key changes we made in 2022 were:

**Increased bonds and cash from 36% to 51%**

Our allocation to bonds is at its highest level since the strategy's inception. Lowering the equity weighting in favour of cash and cash-like holdings in early 2022 helped us to control risk. We later added to our credit holdings, enabling us to lock-in higher yields and boost income. We illustrate this in chart 2.

**Chart 2: Long-term allocation to bonds and cash**



Source: Aegon AM. Representative diversified income portfolio. From 1 March 2014 to 31 December 2022.

**Reduced listed real estate from 8% to 4%**

Real estate has been a strong beneficiary of the long-term period of low interest rates, which resulted in very low rental yields. In 2022 this tailwind became a major headwind as financing costs rose and property values declined. Furthermore, some sectors such as sub-prime offices are structurally challenged due to working-from-home and increasing requirements for energy and environmental efficiency.

From a valuation perspective a lot of this is now priced-in, although in the short term we are careful as sentiment and liquidity are not supportive.

**Reduced high-dividend equities from 11% to 1%**

We have traditionally had a healthy allocation to European and UK equities, often in the financial sector. However, higher bond yields have made these assets relatively less attractive, while our concentration in European and UK holdings became a risk, given the challenging economic situation. Despite this, the insurance sector (which has traditionally been a large part of our high-dividend equity allocation) was more resilient than we initially expected, largely due to higher interest rates.

Although we are more positive on global equity income, we may also selectively add holdings in this area as opportunities arise.

**Increased global equity income from 21% to 29%**

Compared to high-dividend equities, we are more positive about the future opportunities in global equity income, which has higher growth potential.

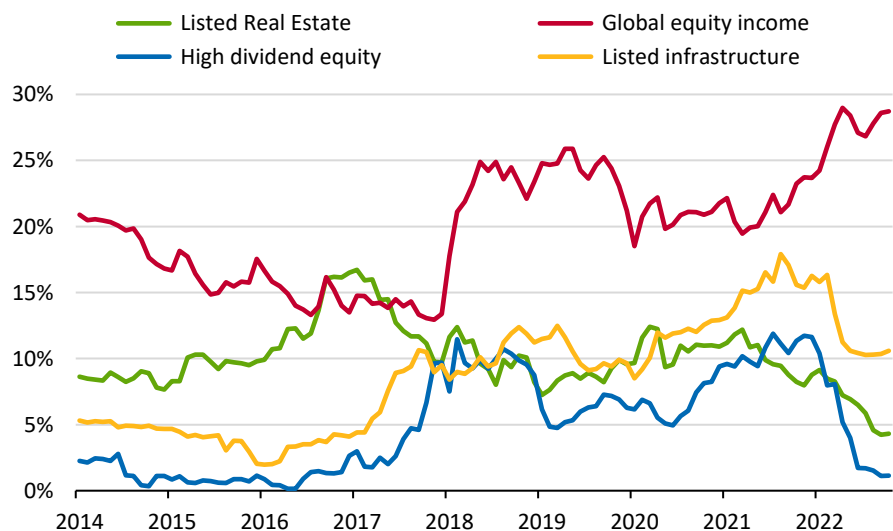
Within this strategy we increasingly favour US-exposed holdings. We also increased our exposure to the IT and semiconductor sectors, which are supported by structurally growing demand, while the sell-off earlier in the year provided a better entry moment.

**Reduced listed infrastructure from 16% to 11%**

Overall, listed infrastructure is a good match for an income fund, given the high pay-outs, although rising bond yields have reduced that attraction. Early in 2022 we began to trim our exposure across various holdings in integrated utilities, toll road operators and others. Higher debt levels would negatively impact several holdings, while growth in most parts is constrained by regulatory limits and the capital intensity of the sector.

In chart 3 we illustrate the impact of the asset allocation changes across equities, real estate and infrastructure in 2022, putting these in a historical context.

**Chart 3: Historic allocations to equities, real estate and listed infrastructure**



Source: Aegon AM. Representative diversified income portfolio. From 1 March 2014 to 31 December 2022.

<b>Reduced active foreign exchange exposure to manage risk</b>	At the beginning of 2022 we had several emerging-market foreign exchange carry positions which worked well, including the Brazilian Real, Mexican Peso and Chinese Yuan. As the year progressed, we reduced our gross currency positions to lower our overall risk. In the final two months we reintroduced several carry positions and increased our long US Dollar position.
<b>Increased investment grade credit from 5% to 12%</b>	From September we progressively increased our allocation to investment grade credit, capturing the attractive yield and spread. Looking ahead, we view it as more likely that spreads and yields will again become negatively correlated.
<b>Increased high yield bonds from 12% to 14%</b>	We believe high yield bonds are highly attractive on a yield basis, with typical USD yields of around 9%. Spreads in the US should compensate for an economic slowdown, while spreads in the EU are more attractive, but at a higher default risk. All-in-all, we believe high yield bonds are likely to yield substantially positive returns in most economic scenarios.
<b>Removed our treasury bond futures</b>	<p>We removed our treasury bond future, which had not worked due to the sharp rise in yields. Spreads versus bunds remain relatively stable, but yields have become unanchored, so we preferred to remove our exposure.</p> <p>We removed the 5-year note future, which acted as a carry / income position when the yield curve was steep. However, the sharp rise of the short end implies that the carry is now negative.</p>
<b>Increased our exposure to the US from 15% to 29%</b>	At a country level we favoured US holdings across several asset classes, as the economy is less challenged compared to the EU and the UK, while offering more attractive growth and a more shareholder-friendly regime. We increased our exposure to 27% by the end of 2022, although this is arguably still low compared to the size the US market.

## The year ahead for multi-asset income

Looking ahead to 2023 and beyond, on the macro-economy we are aligned with Aegon AM's house view, which is that rates will be 'higher for longer'. We believe that a recession is likely in the EU and the US. The extreme downside due to the energy crisis seems to have been avoided, although escalation of the Ukraine / Russian war remains a risk.

Valuations are reasonably attractive. Higher sovereign yields offer a good starting point. Spreads should compensate for a (mild) recession.

Overall, we believe the equity market is reasonably valued. Many of our holdings are outside big-tech and are attractively valued on an absolute and relative basis. Earnings are likely to decline in the short run, due to margin pressure. On the downside, sentiment remains very bearish, although that tends to be a contrarian indicator.

Overall, at our current starting point we believe a diversified portfolio is likely to generate decent returns in the medium term. In the shorter term, we will use cash tactically to add or reduce risk.

It is hard to have a strong view on the overall direction of equity markets in 2023, owing to the competing forces of macroeconomics, central banks, valuation levels and sentiment. Equity markets will likely be very volatile as they respond to any data on inflation, central-bank pivots, and the energy situation. Clarity will come.

It will be key to capture part of these rallies when they occur. We favour adding risk (in a downturn) in favoured global equity income holdings. We will try to shed risk during rallies.

In addition, we expect to:

- Generate a higher income-per-share compared to 2022, as yield is more readily available now across fixed income, equities and currency.
- Retain a higher allocation to fixed income compared to recent years, recognising that this has again become a category offering a positive (real) return and diversification potential.
- Refrain from highly levered equities and real estate investment trusts (REITs) which, despite the sharp correction, will be most impacted by tight financial conditions.
- Continue to capture longer-term structural trends, such as demand for semiconductors, investment in energy grids, and renewable energy.

---

#### Important information

**This is a marketing communication. Please refer to the Prospectus of the UCITS and to the Key Investor Information Document before making any final investment decisions. The relevant documents can be found at [www.aegonam.com/documents](http://www.aegonam.com/documents). The principal risk of this product is the loss of capital.**

Past performance does not predict future returns. Outcomes, including the payment of income, are not guaranteed.

Opinions and/or example trades/securities represent our understanding of markets both current and historical and are used to promote Aegon Asset Management's investment management capabilities: they are not investment recommendations, research or advice. Sources used are deemed reliable by Aegon Asset Management at the time of writing. Please note that this marketing is not prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by Aegon Asset Management or its employees ahead of its publication.

All data is sourced to Aegon Asset Management UK plc unless otherwise stated. The document is accurate at the time of writing but is subject to change without notice.

Data attributed to a third party ("3rd Party Data") is proprietary to that third party and/or other suppliers (the "Data Owner") and is used by Aegon Asset Management UK plc under licence. 3rd Party Data: (i) may not be copied or distributed; and (ii) is not warranted to be accurate, complete or timely. None of the Data Owner, Aegon Asset Management UK plc or any other person connected to, or from whom Aegon Asset Management UK plc sources, 3rd Party Data is liable for any losses or liabilities arising from use of 3rd Party Data.

Aegon Asset Management UK plc is authorized and regulated by the Financial Conduct Authority. Aegon Investment Management B.V. is registered with the Netherlands Authority for the Financial Markets as a licensed fund management company. On the basis of its fund management license Aegon Investment Management B.V. is also authorized to provide individual portfolio management and advisory services. Aegon AM NL also operates through branches in Germany and Spain. These branches are regulated by the BaFin (Germany) and CNMV (Spain) based on the home-host state supervision rules.

AdTrax: 5413394.1 | Expiry: 31/12/2023